

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2013

Docket No. ACR2013

RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO COMMISSION REQUESTS FOR ADDITIONAL INFORMATION  
IN THE FY 2013 ANNUAL COMPLIANCE DETERMINATION

In its Fiscal Year 2013 Annual Compliance Determination, issued on March 27, 2014, the Postal Regulatory Commission requested additional information from the Postal Service regarding several issues within ninety days. The Postal Service's responses to those requests follow.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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## 1. Costing Methodology for Parcel Return Service Full Network Contracts

*The Commission directs the Postal Service to develop a revised costing methodology that can be used for this contract and future Parcel Return Service Full Network contracts. The Postal Service should file the proposed methodology in a rulemaking proceeding within 90 days of the issuance of the FY 2013 ACD. If Parcel Return Service Contract 4 does not cover costs under the revised costing methodology, within 90 days of the Commission's decision on the proposed methodology, the Postal Service will have to revise the terms of, or terminate, the contract. FY 2013 ACD at 82-83.*

### **RESPONSE:**

The revised methodology has been submitted as Proposal Three in Docket No.

RM2014-6, filed on June 20, 2014. If Proposal Three is adopted, the contract is shown to have covered actual costs in FY2013, and would be expected to continue to do so going forward.

## 2. Costing of IPA Product

*The Commission therefore directs that the Postal Service report within 90 days and reconfirm that the IPA product will cover the projected attributable costs in FY 2014. The Postal Service shall also provide an analysis of the causes of the FY 2013 loss and decrease in cost coverage. In addition, the Postal Service is to recommend modifications to its current methodology of developing costs and, if necessary, propose the modifications in a rulemaking, so as to improve the reliability of such costs for the IPA product. FY 2013 ACD at 86.*

### **RESPONSE:**

The requested modification of the IPA costing methodology has been submitted as Proposal Four in Docket No. RM2014-6, filed on June 20, 2014. If Proposal Four is adopted, the IPA product (non-NSA portion, as well as NSA portion) is shown to have covered actual costs in FY2013, and would be expected to continue to do so going forward.

### 3. Performance Measure for Inbound Surface Parcel Post/Alaska Bypass Service

*Within 90 days of the issuance of this ACD, the Postal Service shall propose to the Commission appropriate measurement systems for both Inbound Surface Parcel Post (at UPU rates) and Alaska Bypass Service. FY 2013 ACD at 115.*

#### **RESPONSE:**

Inbound Surface Parcel Post: In the ACD, the Commission stated that because the Postal Service did not provide publicly available service performance data for Standard Post, using Standard Post as a proxy for measuring the performance of Inbound Surface Parcel Post (at UPU rates) is inappropriate. In response, the Postal Service has filed a request to transfer Inbound Surface Parcel Post (at UPU rates) from the market-dominant product list to the competitive product list. See Docket No. MC2014-28. Assuming the Commission approves the transfer, this would moot the necessity for a measurement system. Until this change becomes effective, and consistent with Order No. 531 and past practice,<sup>1</sup> the Postal Service will continue to file publicly the Standard Post service performance data as a proxy.

Alaska Bypass Service: In the ACD, the Commission stated that because the Postal Service did not provide publicly available service performance data for Standard Post, using Standard Post as a proxy for measuring the performance of Alaska Bypass Service is inappropriate. In response, the Postal Service will file in Quarter 4 of FY2014 a request for a permanent exception for reporting service performance data for Alaska Bypass Service pursuant to 39 C.F.R. § 3055.3. This request will be based on analysis that indicates that the cost of implementing a measurement system would be prohibitive

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<sup>1</sup> See, e.g., USPS Quarterly Performance Reports, Quarter 2, FY 2014 filed May 9, 2014.

in relation to the revenue generated by the product and that the product, inherently, defies meaningful measurement. Assuming the Commission grants the request for a permanent exception, this would moot the necessity for a measurement system. Until this permanent exception is granted, and consistent with Order No. 531 and past practice,<sup>2</sup> the Postal Service will continue to file publicly the Standard Post service performance data as a proxy.

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<sup>2</sup> See, e.g., USPS Quarterly Performance Reports, Quarter 2, FY 2014 filed May 9, 2014.

#### 4. Costing of International Money Transfer Service-Outbound

*For International Money Transfer Service-Outbound, the Commission finds that in FY 2013, this product does not comply with section 3633(a)(2). In recent years, the IMTS-Outbound product has generated revenues in excess of its attributable costs. Accordingly, the Commission considers remedial price increases at this time to be premature. However, given the absence of information on the causes of the loss for the IMTS-Outbound product, the Commission directs that the Postal Service report within 90 days on the causes of the FY 2013 loss and its plan to improve the financial results of the IMTS-Outbound product such that revenues exceed attributable costs. FY 2013 ACD at 86.*

#### **RESPONSE:**

The Postal Service has analyzed the losses for the IMTS-Outbound product and the cause of the losses accounted for in FY 2013 is a disproportionate decrease in escheatment revenue typically associated with the product. The IMTS-Outbound product usually benefits from a certain amount of escheatment, or unredeemed money orders taken into revenue based on ageing. The escheated money orders are unredeemed and viewed as abandoned.

In FY 21013, an uncommonly large number of previously purchased IMTS-Outbound products were cashed. These products had been considered escheated, and thus reported as revenue in prior years. The escheatment offsets associated with this uncommon activity disproportionately impacted the FY 2013 financial results for the product. Based on this analysis, the Postal Service does not anticipate a comparable increase in escheatment offsets for FY 2014. If such an increase occurs again, the Postal Service will act accordingly.